
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
FINANCE COMMITTEE**

MINUTES OF MEETING

December 9, 2005

The Finance Committee met on Friday, December 9, 2005, in the Lincoln Plaza Building at 400 Q Street, Sacramento, California.

The meeting was called to order at 9:35 a.m. and the following members were present:

Robert Carlson, Chair
Nick Smith for Steve Westly, Vice Chair
James Zerio for Philip Angelides
George Diehr
Priya Mathur
Charles Valdes

Other Board Member present:
Michael Navarro

AGENDA ITEM 2 - APPROVAL OF November 15, 2005 MEETING MINUTES

The minutes were approved as presented.

AUDITS

AGENDA ITEM 3 – CHIEF AUDITOR'S REPORT

Larry Jensen, Chief Auditor, presented a matrix listing the various activities occurring within his Division. The matrix provided a status update on the following as an informational item:

- Biennial Audit Plan
- Financial Statement Audit
- Fixed Income Trading System (BlackRock) Compliance Review
- CalPERS/CalSTRS Audit Coordination
- Monitoring and Responding to Exposure Drafts and Proposals
- Reportable Significant/Material Findings

At the November meeting, Deloitte & Touche, LLP, CalPERS' independent financial statement auditor presented an unqualified opinion to the Committee. In February 2006, they will issue their management letter in connection with the financial statement audit as well as the State Savings Plus Program audit. A Request for Proposal (RFP) for the

selection of a new independent financial statement auditor will be presented to the Committee at the February 2006 meeting.

The audit for BlackRock, the fixed income trading system, has been completed and the final report was issued in December 2005. Mr. Jensen provided an overview of the audit results.

Quarterly meetings with CalSTRS to coordinate audit efforts regarding school district audits and to establish protocols have been deferred due to the retirement of the Chief Auditor at CalSTRS. Once the new Chief Auditor is in place, the meetings will resume.

The Financial Accounting Standards Board (FASB) has put on their agenda a project to look at how private sector employers are accounting for pensions and post-retirement benefits. It will be a two-phase project similar to the process used by the Governmental Accounting Standards Board (GASB). The project will be monitored and any findings will be reported back to the Committee.

AGENDA ITEM 4 – OFFICE OF AUDIT SERVICES QUARTERLY STATUS REPORT

Mr. Jensen presented the Office of Audit Services Quarterly Status Report of audit activity and special projects as of September 30, 2005 to the Committee as an information item.

AGENDA ITEM 5 – COMPLIANCE OFFICE REPORT

Sherry Johnstone, Chief Compliance Officer, provided a status update from the Office of Enterprise Compliance to the Committee as an information item.

It was noted that as an annual accomplishment for Enterprise Compliance as required under U.S. sentencing guidelines and California Assembly Bill 1825, all employees have received sexual harassment prevention training. It was also noted that as required designated employees and Board members have received ethics training. Training records are maintained and monitored to comply with state and federal requirements.

Committee requested that staff review U.S. sentencing guidelines and requirements for Board of Administration training on compliance and ethics. Staff was asked to prepare an analysis and make a recommendation on whether additional training should be provided to Board Members for monitoring and oversight of the Enterprise Compliance program.

Staff was requested to provide an Annual Enterprise Compliance Report in February 2006 that includes a plan to implement compliance throughout the organization.

AGENDA ITEM 6 – 2005-06 ANNUAL PLAN – FIRST QUARTER UPDATE

Susan Garrett, Division Chief, Strategic Management Services Division, presented the 2005-06 Annual Plan – First Quarter Update to the Committee. The report reflected the progress and status of the goals previously adopted in 2004 and not the new goals adopted by the Board in September 2005. The planning process for the new goals has been concluded and the new objectives are moving through the budgeting process. The new strategic plan and new objectives will be presented as a first reading at the March 2006 Finance Committee meeting. Discussion of the current strategies and goals reflected that

some strategies do not reference all of the goals. That resulted in a request for a matrix that reflects the overall structure of the entire strategic plan. Ms. Garrett stated a matrix would be provided in the future.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the 2005-06 Annual Plan – First Quarter Update.

AGENDA ITEM 7 – INFORMATION TECHNOLOGY SERVICES STATUS REPORT

Gene Reich, Assistant Executive Officer, Information Technology Services Branch, provided project updates to the Committee on the PSR, EMBARC, Forte Migration, and the Decommission of the Legacy Enrollment System.

In addition, he provided a status report to the Committee on the Independent Review of the Contract Process. The Committee requested that the Policy Change category of the Independent Review of the Contract Process be placed on the agenda for a future Finance Committee meeting once staff has completed their work on the policy issue decisions.

AGENDA ITEM 8 – FISCAL YEAR 2005-06 MID-YEAR BUDGET REVISION (FIRST READING)

Russell Fong, Chief, Fiscal Services Division, introduced Lyn Vice, Assistant Division Chief, Fiscal Services Division, to the Committee. Ms. Vice presented the first reading of the Fiscal Year 2005-06 Mid-Year Budget Revisions. Discussion during the first reading resulted in a recommendation by staff that the Committee approve increases in the Administrative, Enterprise Project, and the CalPERS Headquarters Building budgets. Technically, there was not an increase to the Administrative Budget. Funds were redirected within the current budget level. However, there was an increase in personnel which will have an impact in the 2006-07 budget.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the first reading of the Fiscal Year 2005-06 Mid-Year Budget Revisions.

AGENDA ITEM 9 – BUDGET AND EXPENDITURE REPORT FOR THE FIRST QUARTER OF FISCAL YEAR 2005-06

Mr. Fong provided the Committee with the Budget and Expenditure Report for the First Quarter of Fiscal Year 2005-06.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED**, the Committee recommended the Board accept Budget and Expenditure Report for the First Quarter of Fiscal Year 2005-06. The Board motion also included authorization to submit this report to the Legislature.

AGENDA ITEM 10 – CURRENT BUDGET ISSUES

Ms. Vice provided an update regarding current budget issues to the Committee as an information item. Curtis Howard, Assistant Executive Officer, Administrative Services Branch, added that there will be a spring finance letter requesting funds to provide the dollars necessary to do the requested survey to look at the pooling effect of the school

employees' organizations in the CalPERS program or a separate pool for school employees' organizations. That request is a result of recently enacted legislation.

AGENDA ITEM 11 – DISABLED VETERAN BUSINESS ENTERPRISE CONTRACT PARTICIPATION, 2004-05 ANNUAL REPORT

Richard Aldama, Diversity Outreach Manager, presented the Annual Report for the Disabled Veteran Business Enterprise (DVBE) Contract Participation. The highlights of the report included the DVBE participation levels for the procurement of goods and service contracts for both over and under \$25,000.

On **MOTION** by Mr. Smith, **SECONDED** and **CARRIED**, the Committee recommended the Board approve the Annual Report for the Disabled Veteran Business Enterprise (DVBE) Contract Participation.

AGENDA ITEM 12 – ASSISTANT EXECUTIVE OFFICER REPORT

Curtis Howard reported no new issues that require discussion with the Committee.

AGENDA ITEM 13 – PROPOSED FEBRUARY 2006 AGENDA

The proposed February 2006 agenda was approved as presented.

AGENDA ITEM 14 – PUBLIC COMMENT

There were no public comments presented.

The meeting was adjourned at 11:00 a.m.

The next Finance Committee meeting will be held on Friday, February 10, 2006, in Sacramento, California.